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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

JUN 26 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure and Pricing)	CC Docket No. 91-213
)	
End User Common Line Charges)	CC Docket No. 95-72

COMMENTS OF U S WEST, INC.

U S WEST, Inc. ("U S WEST") hereby submits its comments on the Federal Communications Commission's ("Commission") Further Notice of Proposed Rulemaking ("Further Notice") in the above-captioned docket.¹ This Further Notice, which is appended to the First Report and Order, seeks comment on two issues:

- Whether incumbent local exchange carriers ("LEC") should be permitted to assess a Primary Interexchange Carrier Charge ("PICC") on customers of incumbent LECs' special access service (Further Notice ¶ 403); and
- How the Commission should deal with general support facilities ("GSF")

¹ In the Matter of Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Transport Rate Structure and Pricing; End User Common Line Charges, CC Docket Nos. 96-262, 94-1, 91-213 and 95-72, First Report and Order, FCC 97-158, rel. May 16, 1997 ("First Report and Order"), appeals pending sub noms. 97-9534 (10th Cir.); 97-1406 (D.C. Cir.); 97-1404 (D.C. Cir.); 97-1390 (D.C. Cir.); 97-2618 (8th Cir.); 97-2661 (8th Cir.); 97-3331 (3rd Cir.), Further Notice of Proposed Rulemaking ¶¶ 397-418.

costs associated with deregulated billing and collection ("B&C") services
(Further Notice ¶¶ 412-18).

U S WEST makes the following comments on these issues.

I. THE COMMISSION SHOULD NOT APPLY PICCS TO
SPECIAL ACCESS LINES (Further Notice ¶¶ 403-406)

The Commission initially proposes to permit price cap LECs to recover some costs assigned to the common line basket via a PICC assessed on purchasers of special access services.² The Further Notice would permit this PICC to be no higher than the incumbent LEC's PICC associated with a multi-line business line. The Further Notice recognizes that such a charge would represent a dramatic departure from prior Commission policy to the effect that special access revenues not be used to subsidize other services. The Further Notice also implies that incumbent LECs would have the option of charging the PICC on a special access line or not, but further implies that, should a LEC elect not to charge a PICC on a special access line, the revenue "forgone" by the LEC could not be made up from other charges (in the same manner as subscriber line charges forgone by LECs may not be made up elsewhere.)³

With all due respect, imposing surcharges on special access lines in order to subsidize local residential rates (which is what the Commission's proposal would be tantamount to) would be quite unwise. There are several reasons why this is so:

² Further Notice ¶ 403.

³ 47 C.F.R. § 69.152(m); First Report and Order ¶ 86. However, the First Report and Order also implies that PICCs on special access lines may not be voluntary at all. See id., ¶ 103.

- U S WEST's private line/special access services are already subject to significant competition. Forcing these services to subsidize other services would simply have the effect of making these competitive services less competitive. Rather than subsidize residential services, such a charge would artificially depress U S WEST's revenues.
- Forcing U S WEST's competitive special access services to subsidize other services would not only impose a discriminatory subsidy system on LEC special access services, but one which is palpably inequitable as well, thus violating both prongs of Section 254(b)(4) of the Act.
- The current "special access surcharges" called for in 47 C.F.R. Section 69.115 of the Commission's rules have been, for the most part, ineffectual.
- A major subsidy now associated with special access involves the enhanced service provider ("ESP") exemption. ESPs often purchase local business lines to their local nodes and special access lines to an interexchange carrier's ("IXC") point of presence ("POP"). Because these ESPs obtain use of local exchange switching facilities for interstate purposes without paying a full and proper interstate price for those facilities, ESPs using special access today obtain a subsidy. But the Commission in the First Report and Order decided to retain this subsidy.⁴ Elimination of the ESP exemption would tie subsidy-based special access service to actual use of LEC switching facilities, but the Commission has declined to take this

⁴ Id. ¶¶ 341-43.

salutary step. The PICC proposed in the Further Notice would have nothing to do with use of local exchange switching facilities. Thus, placing a PICC on all special access users, while continuing the ESP exemption, would be fundamentally contradictory.

- Determining how to calculate circuit counts for assessment of this subsidy would be complex and itself would motivate customers to engage in a pattern of subsidy avoidance at direct odds with the Commission's proclaimed purpose of relying on market forces to govern telecommunications markets wherever possible.

In short, there is no good reason to require special access services and customers to subsidize local loop customers.

II. REALLOCATION OF GENERAL SUPPORT FACILITIES COSTS Further Notice ¶¶ 407-418

The Further Notice observes that the current allocation of GSF costs permits some incumbent LEC computer costs used for unregulated B&C services to be recovered from IXCs through access prices.⁵ Accordingly, the Further Notice proposes to formulate a methodology for properly assigning a portion of GSF costs to B&C accounts.⁶ Two alternate methodologies are proposed.⁷

Initially, U S WEST concurs with the basic principle that detariffed B&C services which make use of regulated computers ought to do so via a proper cost

⁵ Id. ¶¶ 410-11.

⁶ Id. ¶ 412.

⁷ Id. ¶¶ 415-17.

allocation. From this standpoint the Further Notice's position is not very controversial. Two observations are appropriate.

First, it will be recalled that the Commission only recently assigned significantly more B&C expenses to the interstate jurisdiction.⁸ The OB&C Order requires incumbent LECs to employ a fixed allocator to assign other billing and collection ("OB&C") costs between jurisdictions — i.e., one-third local service, one-third intrastate toll and one-third interstate toll service.⁹ This represented a significant change from the previous allocation of OB&C costs. In U S WEST's case, the total additional interstate allocation of OB&C expenses amounts to \$31.5 million (for 1997), of which \$26.4 million is allocated to the B&C element in the Part 69 process. MCI Telecommunications Corporation ("MCI") has filed a petition for reconsideration of the OB&C Order, which is now pending.¹⁰ U S WEST suggests that uncertainty in determining just what the cost of providing interstate B&C services makes marketing and provisioning of these services extremely difficult — especially when, as is the case here, regulatory decisions keep driving the cost of service upward. The Commission should make any decision on B&C GSF expense allocation coterminous with its decision on reconsideration of the OB&C Order so that carriers can stabilize their interstate B&C business relationships.

⁸ In the Matter of Amendment of Part 36 of The Commission's Rules and Establishment of a Joint Board, Report and Order, 12 FCC Rcd. 2679 (1997) ("OB&C Order").

⁹ Id. at 2686 ¶ 16, and see id. at 2696 Appendix B amending 47 C.F.R. § 36.380.

¹⁰ MCI Petition for Reconsideration, CC Docket No. 80-286, filed May 1, 1997.

Second, of the two options proposed in the Further Notice, the second option would be superior if modified as described below. In this option, Section 69.307 of the rules would be amended to provide for use of a general expense allocator to allocate the interstate portion of Account 2110 between the B&C category and all other elements and categories.¹¹ The allocator would be based on the Big Three expense allocator, as suggested, excluding, however, any account or portion of an account that is itself apportioned based on the apportionment of GSF to avoid circularity as described in Paragraph 417 of the Further Notice. U S WEST agrees that this approach is facially reasonable, but suggests that a slightly different approach would be simpler and equally accurate. Rather than using the allocation factor to apportion all of Account 2110 to the B&C element, the factor would be applied to Account 2124 (computers) only. This account would be summarized into Account 2110 and secondary allocations of expenses (such as the Part 69 Big Three allocator and the other allocations described in Section 69.309) would drive additional allocations to B&C, including computer expenses in Account 6124.

Additionally, the Commission will accomplish the goal of assigning computer expenses recorded in Account 6124 as well as other GSF expenses (Account 6120) to the B&C element without additional studies and rule changes.

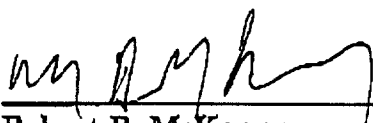
This methodology is superior to either method suggested in the Further Notice and, in reality, is a hybrid of the Commission's two options. It allocates an amount of computer investment to the B&C element without the computer special

¹¹ Further Notice ¶ 417.

study and "the remainder of account 2110 would be apportioned to the access elements and interexchange category using the current investment allocator" as suggested by the Commission in Paragraph 415 of the Further Notice. This method prevents significant dislocations of investment between the access, B&C and interexchange elements.

Respectfully submitted,

U S WEST, INC.

By: 
Robert B. McKenna
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
(303) 672-2861

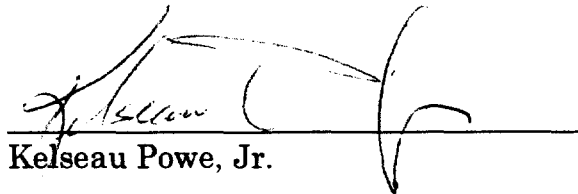
Its Attorney

Of Counsel,
Dan L. Poole

June 26, 1997

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 26th day of June, 1997, I have caused a copy of the foregoing **COMMENTS OF U S WEST, INC.** to be served via hand-delivery upon the persons listed on the attached service list.*


Kelseau Powe, Jr.

* As required by the May 16, 1997 1st R&O and FNPRM (FCC 97-158), a 3 x 5 diskette is submitted to the Office of the Secretary of the FCC, along with the original and hard-copies.

James H. Quello
Federal Communications Commission
Room 802
1919 M Street, N.W.
Washington, DC 20554

Reed E. Hundt
Federal Communications Commission
Room 814
1919 M Street, N.W.
Washington, DC 20554

Susan P. Ness
Federal Communications Commission
Room 832
1919 M Street, N.W.
Washington, DC 20554

Rachelle B. Chong
Federal Communications Commission
Room 844
1919 M Street, N.W.
Washington, DC 20554

Regina M. Keeney
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, DC 20554

Competitive Pricing Division
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

(2 copies)

James D. Schlichting
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

Jane E. Jackson
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

Rich Lerner
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

International Transcription Services, Inc.
Suite 140
2100 M Street, N.W.
Washington, DC 20037